Daiwa
Daiwa Institute of Research

26 January 2015 (No. of pages: 4)

Japanese report: 26 Jan 2015

December Trade Statistics

Trade deficit shrinks considerably due to plunge in price of oil

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Summary

- According to December 2014 trade statistics, export value grew for the fourth consecutive month at +12.9% y/y, while exceeding market consensus at +11.2% y/y. This was due to the progressively weak yen, which caused export price to grow considerably by +8.7% y/y. In addition, export volume grew for the first time in two months by +3.9% y/y, helping to push up the export value. The seasonally adjusted figure for export value grew by +2.0% m/m, its seventh consecutive month of growth. The growth trend in export value continues as prices rise due to the progressively cheaper yen.

- December import value grew for the first time in two months at +1.9% y/y. As was the case with export volume, the import price was given a boost by the weak yen at +3.8% y/y, helping to push up import value. However, the decline in the international commodities market was a factor working toward a decline in import prices, and the extent of growth in import price shrank in comparison to the previous month, recording +5.7%. Compared to the extent of growth recorded by export prices, growth in import price was fairly small on a y/y basis.

- The trade balance recorded a deficit for the thirtieth consecutive month at -660.7 bil yen. However, this figure is about half the amount recorded during the same month of the previous year. In seasonally adjusted terms, import value marked time in contrast to the growth trend in export value. In seasonally adjusted terms, the trade balance recorded -712.1 bil yen, representing the third month in a row the trade deficit actually shrank.

Trade Statistics **Chart 1**

	2014 Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Export value (y/y %)	5.1	-2.7	-1.9	3.9	-1.3	6.9	9.6	4.9	12.9
Market consensus (Bloomberg)									11.2
DIR estimate									9.6
Import value (y/y %)	3.4	-3.5	8.5	2.4	-1.4	6.3	3.1	-1.6	1.9
Export volume (y/y %)	2.0	-3.4	-1.6	1.0	-2.9	2.8	4.8	-1.7	3.9
Export price (y/y %)	3.0	0.7	-0.3	2.9	1.6	4.0	4.6	6.7	8.7
Import volume (y/y %)	-1.3	-4.0	7.2	-0.3	-4.5	3.0	-1.7	-7.0	-1.8
Import price (y/y %)	4.8	0.5	1.2	2.7	3.3	3.2	4.9	5.7	3.8
Trade balance (Y100 mil)	-8,149	-9,108	-8,285	-9,649	-9,527	-9,641	-7,407	-8,935	-6,607

Source: Ministry of Finance, Bloomberg; compiled by DIR.

Export value wins y/y growth for fourth consecutive month; contribution ratio of external demand grew by +0.2-0.3% pt during Oct-Dec 2014 period

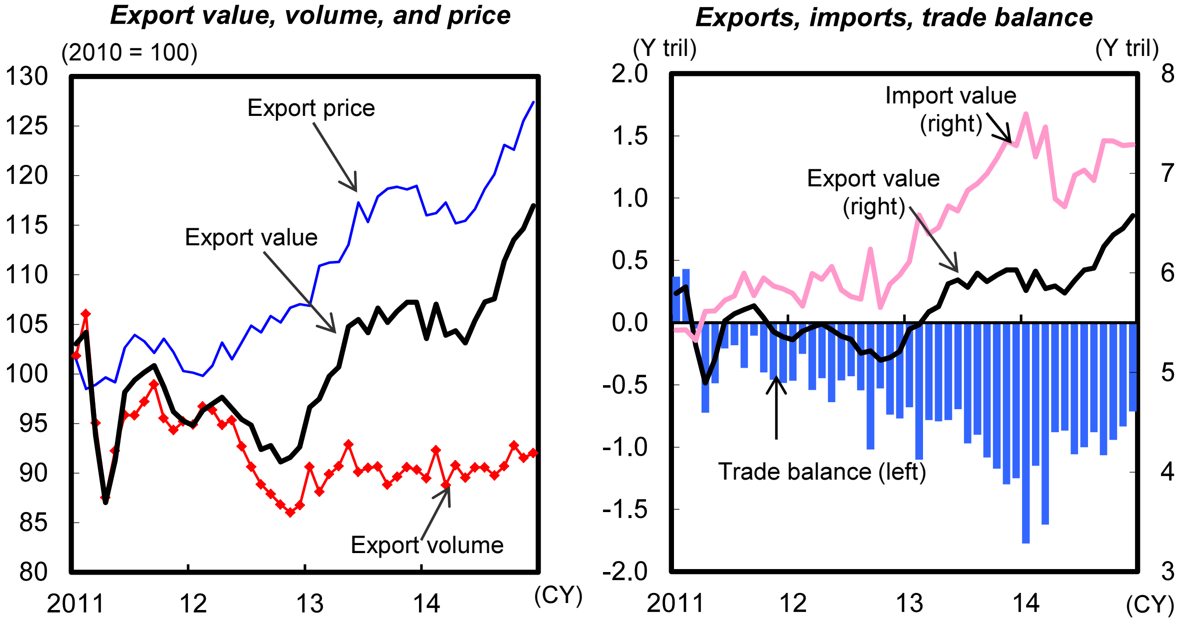
According to December 2014 trade statistics, export value grew for the fourth consecutive month at +12.9% y/y, while exceeding market consensus at +11.2% y/y. This was due to the progressively weak yen, which caused export price to grow considerably by +8.7% y/y. In addition, export volume grew for the first time in two months by +3.9% y/y, helping to push up the export value. The seasonally adjusted figure for export value grew by +2.0% m/m, its seventh consecutive month of growth. The growth trend in export value continues as prices rise due to the progressively cheaper yen.

December import value grew for the first time in two months at +1.9% y/y. As was the case with export volume, the import price was given a boost by the weak yen at +3.8% y/y, helping to push up import value. However, the decline in the international commodities market was a factor working toward a decline in import prices, and the extent of growth in import price shrank in comparison to the previous month, recording +5.7%. Compared to the extent of growth recorded by export prices, growth in import price was fairly small on a y/y basis.

As a result, the trade balance recorded a deficit for the thirtieth consecutive month at -660.7 bil yen. However, this figure is about half the amount recorded during the same month of the previous year. In seasonally adjusted terms, import value marked time in contrast to the growth trend in export value. In seasonally adjusted terms, the trade balance recorded -712.1 bil yen, representing the third month in a row the trade deficit actually shrank.

Based on the current month’s results, we have produced a preliminary estimate for contribution of imports and exports to 2014 Oct-Dec period GDP. Real exports are expected to grow by around 2% q/q while real imports are expected to grow by 1% q/q. Contribution of external demand to GDP is seen at +0.2-0.3%pt q/q.

Export Value, Volume, Price and Trade Balance — **Chart 2**



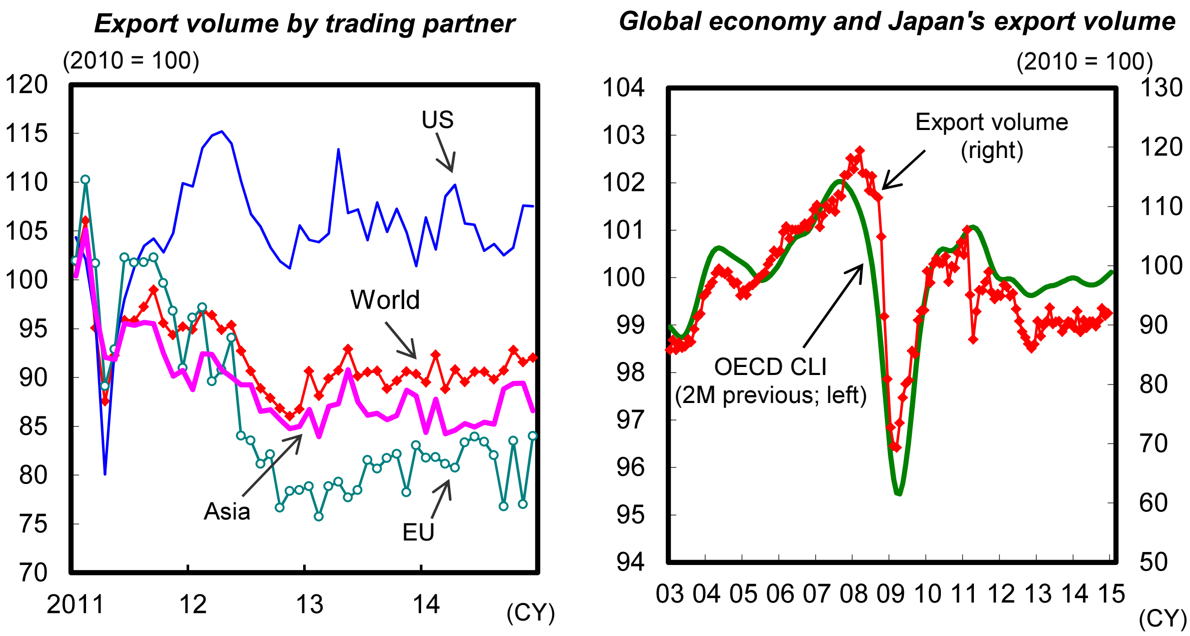
Source: Ministry of Finance; compiled by DIR.
Note: Export volume and export price seasonally adjusted by DIR.

Export volume grows for first time in two months; moderate growth trend seen

The export volume index in seasonally adjusted terms (DIR) grew for the first time in two months at +0.5% m/m. Meanwhile, the three-month moving average grew for the fifth consecutive month, while export volume shows itself to be in a moderate growth trend. Looking at regional trends, exports to the US were marking time at -0.1% m/m while Asia declined by -3.2% m/m. The overall figure for export volume was pushed up by major growth in exports to the EU, up +9.1% m/m.

As for exports to the US, automobiles, which experienced a decline during the previous month, have resumed their growth trend, while exports of iron and steel products have also achieved growth, helping to push up overall figures for export volume, but electrical machinery suffered a decline, becoming a negative factor making overall performance flat in comparison to the previous month. As for exports to Asia, electronic components and devices appear to have slowed down mostly in the Asian NIEs and the ASEAN. Meanwhile, exports to the EU, which suffered a slowdown during the previous month, appear to have gotten back on track in the area of major products such as general machinery, electrical machinery, and transport equipment.

Export Volume by Trade Partner; Global Economy and Japan's Export Volume **Chart 3**



Source: Ministry of Finance; OECD; compiled by DIR.
Notes: 1) OECD CLI (Composite Leading Indicator): OECD member and six non-member countries.
2) Export volume seasonally adjusted by DIR.

Weak yen and cheap oil contribute to shrinking trade deficit

Export volume is expected to continue its growth trend in the future as overseas economies recover. Looking at economic trends by export trade partner, we see continued economic expansion in the US due to robust personal consumption. Automobiles, Japan's major export product to the US, are experiencing sluggish growth due to the increase in local production carried out by Japanese auto makers in the US, but as the corporate sector recovers, growth in exports is expected in the future, centering on capital goods. Meanwhile, there is a slowdown in growth in the EU and China, bringing a danger factor into the mix. However, the additional monetary easing policy of the European Central Bank should take effect and bring about a gradual comeback. Meanwhile, emerging economies in Asia other than China with strong dependence on the US economy are likely to see a gradual increase in vitality led by US economic expansion. Therefore, exports to both Asia and the EU are seen gradually moving toward a growth trend.

The trade deficit is expected to gradually shrink as a result of improved export volume supported by recovery in overseas economies. Meanwhile, falling oil prices should also contribute to bringing down the trade deficit. According to December trade statistics, the unit price of imported oil was $79/bbl, higher than the international oil market where it has been at around $50/bbl. The unit price of imported oil tends to lag about a month behind the international crude oil market, so the price of imported crude oil is expected to drop further after the month of January, and to contribute further to the reduction of the trade deficit. This means that, while we do not expect the trade deficit to go away all that quickly, the trade balance stands a chance of getting back into the black earlier than previously expected.